



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

DATE: February 23, 2006

TO: Legislative Finance Committee

FROM: Jon Moe, Fiscal Specialist

RE: Retirement Systems Unfunded Liability

INTRODUCTION

The purpose of this report is to provide an update regarding the unfunded liability of the state retirement systems. The four plans that continue to violate the constitutional requirement to be “actuarially sound” are the Public Employees’ Retirement System (PERS), the Game Wardens’ and Peace Officers’ Retirement System (GWPORS), the Sheriffs’ Retirement System (SRS), and the Teachers’ Retirement System (TRS). The figure below summarizes the fiscal status before and after the special session.

Revised Unfunded Liability After Special Session Based Upon Most Recent Actuarial Valuation ^a Dollars in Millions				
Retirement System	Total Unfunded Liability	<u>Amt Needed to Make Actuarially Sound</u>		
		Before Session	Legislative Action	After Session
PERS	\$541.0	\$266.2	\$25.0	\$241.2
GWPORS	5.5	1.2	0.0	1.2
SRS	10.9	15.1	0.0	15.1
TRS	<u>903.3</u>	<u>440.0</u>	<u>100.0</u>	<u>340.0</u>
Total	<u>\$1,460.7</u>	<u>\$722.5</u>	<u>\$125.0</u>	<u>\$597.5</u>
^a The most recent actuarial valuation is as of June 30, 2005 for each of the retirement plans.				

The action taken by the legislature in the 2005 Special Session in December was simply an appropriation of \$125 million general fund, \$100 million of which was provided to TRS and \$25 million to PERS.

The other action taken in the special session was the enactment of HB 2, which reestablished an interim legislative review of retirement system proposals. The State Administration and Veterans Affairs (SAVA) interim committee is charged with the task of reviewing the actuarial soundness of the retirement plans and reviewing proposed statutory changes to those system in order to study and report the impact of those proposals on the retirement plans.

WHAT NEXT?

POTENTIAL LEGISLATIVE ACTIONS

SAVA Committee

The SAVA committee will meet March 6, 2006 and plans to discuss the retirement issue and the process for receiving and reviewing legislative proposals under their new charge. I will include an overview of their discussions in my oral report at the March 9th Legislative Finance Committee (LFC) meeting. The SAVA committee has already recommended legislation that would increase the employer contribution rates for the retirement plans.

Legislator Proposals

There are expected to be more proposals in light of the condition of these retirement plans, and several legislative drafting requests have already been submitted. The following are a couple of key proposals

- o Requiring new hires to participate in the defined contribution retirement plan (and to not have the option of entering the defined benefits plan) is one that has been discussed as a long-term solution.
- o The issuing of general obligation bonds to pay down the liability has also been discussed as more of a short-term “quick fix” solution, although it obligates considerable dollars in the long-term.

Other bill draft requests appear to approach the issue from a management and monitoring point of view, but not necessarily directly addressing the immediate liability issue. The details and impacts of these proposals are not available yet, but will be closely followed for future reports to the LFC.

Other Legislator Info Request

A recent legislative request resulted in the actuary for the PERS plans looking at what impact elimination of the 3 percent “GABA” increases for new members starting July 1, 2007, would have on the unfunded liabilities of the PERS plans. The analysis, using the 2005 valuations, shows that the amount of additional contributions needed to reduce the liability to a level that can be amortized in less than 30 years (as required by statute), is largely decreased. In the case of PERS, a 1.6 percent additional contribution is reduced to 0.25 percent. In the case of SRS, a 3.0 percent additional contribution is reduced to 0.39 percent. The other two plans would not require any additional contributions. Again, this analysis by the actuary is based on the retirement plan valuation as of June 30, 2005. A June 30, 2006 valuation will be completed next fall, and numbers will very likely change. How much and which direction is not known at this time.

The TRS plan, which basically has a 1.5 percent GABA provision with potential for more under certain circumstances, but that also has a 3-year waiting period before the GABA is applied, was not included in the analysis. The impact of eliminating the GABA increase for TRS would not be nearly as significant as shown for PERS.

POTENTIAL EXECUTIVE ACTIONS

Office of Budget and Program Planning Activities

The Governor's budget office has initiated its Executive Planning Process (EPP), which ultimately will result in a 2009 biennium budget proposal. As part of the process, OBPP anticipates that the retirement boards will propose budget initiatives, including legislation, to address the unfunded liability issue. These proposals would likely mirror the proposals recommended by the SAVA committee which would increase employer contributions, but also close some loopholes in the retirement laws that result in higher payouts.

Retirement Systems Activities

Both the TRS board and the PERS board will be discussing options for submission in the EPP process. TRS met on February 10 and PERS is scheduled to meet on February 23.

The TRS board supports the SAVA legislation mentioned above, but is also looking at other alternatives. Redesign of the TRS retirement plan for future hires is part of what they are considering and may bring forward for legislative consideration through the EPP and budget discussions culminating in late summer and early fall. It should be pointed out that developing alternative plans for new hires does not reduce the unfunded liability unless a portion of the funds contributed by the employer for the new hires is directed to pay down the liability of the existing plan.

The PERS board is meeting on February 23rd and I should be able to provide an update on their discussions in my oral presentation at the LFC meeting. To date, however, the PERS legislative committee (subcommittee of the PERS board) is recommending that the Board support a bill for phased-in increases of employer contributions to address the funding. They also want to seek funding for the defined contribution retirement plan implementation costs. Both of these items are part of the SAVA bill. The Committee had no recommendations for the full PERS board on other design options. They thought the full board should discuss such options and that discussion is on the agenda for February 23rd.

Board of Investments Activities

The Board of Investments met on February 16-17, and discussed a proposal regarding diversification of the investment portfolio. With the hiring of a chief investment officer, the board has added an additional dimension to the experience and knowledge of the investment staff and at the same time is exploring other comparison options for measuring the performance of investments of public funds. In this effort, the board would hope to improve not only investment returns, but also improve the stability of the investment returns.

S:\Legislative_Fiscal_Division\LFD_Finance_Committee\LFC_Reports\2006\March\Unfunded Liabilities Report Mar2006.doc